

Message Text

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ACTION EB-11

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C O N F I D E N T I A L BRUSSELS 1144

E.O.11652: GDS

TAGS: EFIN, ENRG, BE

SUBJECT: C-ER-57864--WORLD MONETARY AND TRADE RELATIONSHIPS

REF: A. STATE 32727 B. BRUSSELS 860

1. EVEN AFTER DECEMBER OIL PRICE RISES, THE GOB CONTINUES TO BELIEVE STRONGLY THAT A SUCCESSFUL NEW WORLD MONETARY SYSTEM MUST INVOLVE A SYSTEM OF FIXED RATES BASED ON SOME FORM OF SDR AS THE BASIC FOREIGN EXCHANGE RESERVE UNIT USED BY ALL MAJOR TRADING COUNTRIES. SINCE THE GOB REMAINS A LOYAL MEMBER OF THE SMAKE (NOW SOMETIMES CALLED THEDEUTSCHE - MARK BLOC IN GOB FINANCIAL CIRCLES) IT BELIEVES THE FUTURE LEVEL OF THE BELGIAN FRANC VIS-A-VIS OTHER CURRENCIES IS TIED TO THE DM'S RELATIONS.

2. OUR BELGIAN SOURCES ARE OF OPINION THAT BASKET APPROACH TO SDR'S PROPOSED AT THE LAST ROME MEETING OF THE C-20 WILL FALL SHORT OF BEING COMPLETE SOLUTION TO PROBLEM OF DEALING WITH LIQUIDITY. THEREFORE, GOB BELIEVES THAT ONLY THE DOLLAR CAN SERVE (AT LEAST IN THE SHORT RUN) AS AN ALTERNATIVE TO GOLD IN FOREIGN EXCHANGE RESERVE HOLDINGS. THE GOB HOPES THE U.S. WILL AGAIN MAINTAIN DOLLAR STABILITY AND LIMIT ITS FLUCTUATIONS TO A SMALL RANGE AROUND THE
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PARITY SET IN FEBRUARY 1973. IF THE U.S. AND GERMANY DO

THIS, THE GOB IS WILLING TO USE ITS RESERVES TO DO SO TOO.

3. GOB FINANCIAL CIRCLES BELIEVE IT IS TOO EARLY TO ASSESS THE REAL ECONOMIC IMPACT ON THE BELGIAN ECONOMY OF THE DECEMBER/JANUARY OIL PRICE RISES. GOB SOURCES BELIEVE THAT IT WILL TAKE AT LEAST UNTIL MID-MARCH BEFORE THE ECONOMIC IMPACT OF THE PRICE RISES APPEARS IN NATIONAL FINANCIAL STATISTICS. INITIAL ESTIMATES, HOWEVER, SUGGEST THAT THE BELGIAN IMPORT BILL WILL GO UP BY ABOUT 1.5 BILLION DOLLARS IN 1974 BECAUSE OF OIL PRICE RISES, A FIGURE REPRESENTING LESS THAN ONE HALF OF BELGIUM'S CURRENT FOREIGN EXCHANGE RESERVES. THE GOB BELIEVES THAT WORLD PRICES FOR INDUSTRIAL GOODS (I.E. BELGIAN EXPORT PRICES) WILL RISE FAST ENOUGH SO THAT THE ACTUAL 1974 RUN-DOWN DUE TO OIL PRICE RISES WILL PROBABLY BE ONLY EQUIVALENT TO 20 PERCENT OF PRESENT HOLDINGS.

4. IF NECESSARY, THE GOB IS PREPARED TO BORROW INTERNATIONALLY (IN NEW YORK) TO TIDE ITSELF OVER ANY SHORT TERM FLUCTUATION IN EXCHANGE RESERVES. IT WOULD ALSO BE WILLING TO ALLOW ITS DOMESTIC INDUSTRY TO BORROW EITHER IN NEW YORK OR IN THE RURODOLLAR MARKET.

5. THE GOB'S CURRENT THINKING ON GOLD IN SETTLEMENT OF CENTRAL BANK TRANSACTIONS AT OTHER THAN THE OFFICIAL PRICE IS STILL INCHOATE. IT HAS NO PROPOSALS OF ITS OWN AND IS FULLY OPEN TO ANY IDEA COVERING INTRA-EC SETTLEMENT AT OTHER THAN THE OFFICIAL PRICE WHICH WILL NOT LESSEN THE POSSIBILITY OF LATER WORLD-WIDE AGREEMENT ON THE USE OF GOLD AND/OR LESSEN THE HOPE OF A LATER EXPANSION OF THE ROLE OF SDR'S.

6. THE GOB HOPES THAT THE IBRD (INCLUDING THE IFC) WILL TAKE AN ACTIVE ROLE IN RECYCLING THE EXCESS OIL REVENUES ACCRUING TO THE PRODUCERS SO AS TO MITIGATE THE IMPACT OF THE HIGH OIL PRICES ON THE LCD'S.
STRAUSZ-HUPE

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